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No. 95-1887

IN THE
Supreme Court of the United States
OCTOBER TERM, 1996

HYDRANAUTICS,
Petitioner,
v.
FILMTEC CORPORATION,
Respondent.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

REPLY BRIEF FOR PETITIONER

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REPLY BRIEF FOR PETITIONER [1]

INTRODUCTION

Respondent has done an about-face. Before the Ninth Circuit, it maintained in no uncertain terms that the Ninth Circuit "decision conflicts with the Federal Circuit on an important issue of law" involving the scope of *Noerr* immunity under *Professional Real Estate Investors, Inc.* v. *Columbia Pictures Industries, Inc.* ("*PREI*"), 508 U.S. 49 (1993). FilmTec Pet. for Reh. (9th Cir.) 2. Before this Court, respondent argues that there is no conflict, Opp. 3, and goes to great lengths to create that illusion. Its effort fails. The circuits are—as respondent recognized below—split on the important and recurring

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[1] Petitioner's Rule 29.6 Statement appears at Pet. ii.

question reserved in *PREI*. That question is starkly presented by the conflicting court of appeals decisions in this case. The Court should grant the petition and resolve the conflict.

ARGUMENT

1. Even respondent does not deny that the Federal and Ninth Circuits reached irreconcilable results when confronted with Hydranautics' *Walker Process* antitrust claim: in the Ninth Circuit that claim was permitted to proceed beyond the pleading stage, whereas in the Federal Circuit the identical claim was stopped dead in its tracks. As we explained in the petition, the reason for these conflicting results is self-evident: the Ninth Circuit felt obliged to consider Hydranautics' allegations of fraud in determining whether its antitrust claim was barred by *Noerr*, whereas the Federal Circuit gauged *Noerr*'s applicability without regard to the alleged fraud. *See* Pet. 10-12. Accordingly, this case squarely presents the question expressly reserved in *PREI*. *See* 508 U.S. at 62 n.6. As we explained in the petition, and as respondent does not deny, that question has divided the lower courts and requires resolution by this Court. *See* Pet. 13-15.[2]

2. Rather than challenging the "certworthiness" of the question reserved in *PREI* and presented here, respondent attempts to obscure the conflict. Thus, respondent argues that, despite the death-knell it sounded for Hydranautics' antitrust claim, the Federal Circuit never ac-

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[2] *Nobelpharma AB* v. *Implant Innovations, Inc.*, —— F. Supp. ——, 1996 WL 341966 (N.D. Ill. June 19, 1996), cited by respondent, simply underscores the confusion in the lower courts. In that case the court, observing that this Court had "unsettled" the prevailing view with its "in/famous" *PREI* footnote and specifically noting the "lack of guidance from the Supreme Court," followed the Ninth Circuit and D.C. Circuit position that allegations of *Walker Process*-type fraud, if proven, would render litigation inherently baseless, and thus a sham activity not protected by *Noerr*. *See id.* at *8, *10; note 4, *infra*.

tually decided *Noerr*'s application to *Walker Process* claims. Instead, respondent speculates, "the Federal Circuit determined only that the *Walker Process* issue was not presented on the facts of this case." Opp. 2. According to respondent, the Federal Circuit never reached Hydranautics' *Walker Process* claim because it concluded —without actually saying so—that this claim was precluded by the District Court's *vacated* 1990 ruling in the patent infringement action.

As the Federal Circuit opinion makes clear, the court did nothing of the sort. Instead, the Federal Circuit *decided*—because of the manner in which it applied *PREI*'s sham litigation test—that Hydranautics' allegations of *Walker Process*-type fraud were not pertinent to its inquiry into whether respondent's predatory acts were shielded by *Noerr*. In determining whether the patent infringement litigation was "objectively baseless" under *PREI* step one, Pet. App. 11a-14a, the Federal Circuit considered only "the objective merits of the *predicate suit*." *Id.* at 11a (quotation omitted and emphasis added). Accordingly, the Federal Circuit focused on "the litigation history of the '344 patent," *Id.* at 12a, including "[t]he issues on which th[e] [patent infringement] litigation hinged, precisely what Cadotte invented, and when * * *." *Id.* at 13a.

Significantly, however, the court did not mention, let alone factor into its *PREI* analysis, any of Hydranautics' allegations of *Walker Process*-type fraud. Thus, the Federal Circuit did not consider Hydranautics' allegations—first asserted in its antitrust claim—that FilmTec fraudulently procured the patent, knowingly attempted to deceive the government as to the true origins of Cadotte's invention, and sought to enforce the patent in bad faith to drive competition from the relevant market. *See id.* at 24; note 5, *infra*.

The Federal Circuit saw no need to reach those allegations—or, as the court put it, to "decide whether Film-

Tec's suit was in bad faith or otherwise motivated by anticompetitive intent," or to "decide whether *Noerr-Pennington* immunity is vitiated by fraud on the patent office"—because of its conclusion under *PREI* step one that the predicate infringement suit was not objectively baseless *without regard to* the alleged fraud. Pet. App. 14a n.2. In other words, the Federal Circuit accepted the same theory that respondent advanced—but lost on—in the Ninth Circuit: "that its initial victory requires dismissal of [Hydranautics'] antitrust claim[] based upon FilmTec's ultimately unsuccessful patent infringement lawsuit[], *regardless of whether it obtained the patent*[] *fraudulently*." *Id.* at 38a (emphasis added).

Thus, respondent is quite wrong to suggest that the Federal Circuit never decided the question presented by this petition and left open by *PREI*, or that the court simply concluded that no *Walker Process* claim was stated by Hydranautics. To the contrary, the Federal Circuit *decided* that under this Court's precedents it is not required to entertain allegations of *Walker Process*-type fraud if it first determines—without regard to those allegations—that the predicate suit was not objectively baseless.[3] Thus, "[i]n light of [its] holding that FilmTec's patent infringement suit was not objectively baseless," the Federal Circuit concluded that Hydranautics' antitrust

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[3] For this reason, respondent's attempt to analogize this case to *Carroll Touch, Inc.* v. *Electro Mechanical Systems, Inc.*, 15 F.3d 1573 (Fed. Cir. 1993), fails. Opp. 9. The antitrust defendant in *Carroll Touch* did not allege fraudulent conduct on the part of the patent holder. *See* 15 F.3d at 1581. Thus, the *Carroll Touch* court correctly stated that there was no need to "decide the applicability of *Noerr* immunity to a litigant who sues on a patent procured by fraud, *because that issue is not raised here*." *Id.* at 1583 n.10 (citation omitted and emphasis added). In this case, by contrast, the *Walker Process* issue *was raised* and, as discussed, that claim was in fact *decided* against Hydranautics by the Federal—but not Ninth—Circuit below.

claim was futile without ever reaching its allegations of fraud. *Id.* at 14a n.2.[4]

3. Respondent's *post hoc* effort to explain away the Federal Circuit holding below not only has no grounding in the court's opinion but also makes no sense, for several reasons. First, the allegations underlying Hydranautics' *Walker Process* claim (set forth at Pet. App. 24a) were not—and could not have been—litigated in the patent infringement litigation, as respondent alleges, because they were not pleaded until *after* the Federal Circuit had rejected respondent's infringement suit. Thus, Hydranautics did not raise fraud as a defense in its answer to respondent's patent infringement complaint, C.A. App. 62-65; Hydranautics did not raise any claim of fraud in its pretrial contentions of law and fact in the infringement action, *id.* at 70-116A; and the district court's pretrial order in the infringement action did not identify fraud as either a defense or issue of fact to be litigated at trial, *id.* at 117-148.

This should come as no surprise. As the Ninth Circuit recognized below, the facts giving rise to a patent infringement action and those giving rise to a *Walker Process* antitrust claim typically are "distinct[]," and are in fact "significant[ly]" different in this case. Pet. App. 35a, 37a. Thus, Hydranautics' antitrust claim turns on numerous facts that were neither pleaded nor litigated in the prior patent infringement action, including its al-

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[4] *Nobelpharma AB* v. *Implant Innovations, Inc., supra*, is not to the contrary. That court correctly observed that the *FilmTec* "court wrote that its holding concerning the *Noerr-Pennington* analysis' exception's first prong, that the suit was not objectively baseless, made it unnecessary for it to engage in the *Walker Process* analysis." 1996 WL 341966, at *9. But the *Nobelpharma* court ultimately stopped short of following that plain reading of the Federal Circuit decision below because it concluded that "such an interpretation would be incorrect in light of the rulings from other circuit courts," and, in particular, the Ninth Circuit in this case and D.C. Circuit in *Whelan* v. *Abell*, 48 F.3d 1247 (D.C. Cir. 1995). 1996 WL 341966, at *10.

legations that FilmTec fraudulently procured its patent, knowingly attempted to deceive the government as to the true origins of Cadotte's invention, and sought to enforce the patent in bad faith to drive competitors from the relevant market. *See id.* at 24a. FilmTec's patent infringement action, by contrast, turned on when Cadotte conceived the invention and, more specifically, whether he was under contract with the government at the time. *See FilmTec Corp.* v. *Hydranautics*, 982 F.2d 1546, 1553 (Fed. Cir. 1992), *cert. denied*, 510 U.S. 824 (1993).[5]

Second, even if the facts underlying Hydranautics' *Walker Process* claim had been litigated in the patent infringement action, findings in that action would be entitled to no preclusive effect in subsequent litigation between the parties, because the Federal Circuit reversed and vacated the district court judgment in the infringement action. *Id.* at 1547. It is hornbook—and Federal Circuit—law that when a judgment is reversed or vacated on appeal, the judgment (as well as any findings underlying that judgment) is not entitled to preclusive effect in subsequent litigation. IB James W. Moore *et al.*, *Moore's Federal Practice* ¶ 0.416[2], at III-314 to III-315 (2d

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[5] Respondent harps on the fact that, in the course of its (vacated) ruling in the patent infringement action, the district court, as the Federal Circuit put it, "speculated that Cadotte might not have remembered what led him to the February experiments and that he did not keep the invention to himself so he could take it with him to FilmTec." 982 F.2d at 1553. According to respondent, that "speculat[ion]" necessarily forecloses Hydranautics' *Walker Process* claim. *See* Opp. 10-16. But that cannot be. The allegations underlying Hydranautics' subsequent *Walker Process* claim went far beyond what *Cadotte* himself knew or intended *at the time he joined FilmTec.* As noted, they included that *FilmTec* knew when it *later* applied for a patent that Cadotte lacked title; that FilmTec made certain misrepresentations to the government; and that FilmTec eventually sought to enforce the patent for anticompetitive ends. *See* Pet. App. 24a. None of these allegations was litigated in the patent infringement action. *See supra* at 5. And each of these allegations, when taken as true, states a valid *Walker Process*—or so-called *Handgards*—antitrust claim. *See* Pet. 13 & n.6.

ed. 1995). *Accord, State Indus., Inc.* v. *Mor-Flo Indus., Inc.*, 948 F.2d 1573, 1576-77 (Fed. Cir. 1991).[6]

In the end, therefore, respondent's laborious effort to recast the Federal Circuit ruling below says more about its justifiable concern as to the merits of the petition than it does about what the Federal Circuit actually decided.

4. The Federal Circuit decision below stands in stark contrast to the Ninth Circuit ruling in this case. As explained in the petition, and as respondent does not dispute, the Ninth Circuit rejected respondent's argument that it could dismiss Hydranautics' antitrust claim under this Court's precedents "regardless of whether [respondent] obtained the patent[] fraudulently." Pet. App. 38a.

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[6] The Ninth Circuit emphasized this precise point in its decision in this case:

> [T]he patent infringement judgment was vacated on the ground that FilmTec did not own the patent, without a determination whether FilmTec fraudulently obtained the patent. *Because the Federal Circuit did not decide whether FilmTec obtained its patent fraudulently, the district court will now begin the antitrust case with a blank slate on the fraud issue.* If an appellate court reverses and vacates a judgment, the party which prevails on appeal is generally not bound by adverse trial rulings on other issues. *United States* v. *Cheung Kin Pang*, 555 F.2d 1069, 1077 (2d Cir. 1977). This difference in which facts control shows why there may be a significant difference, *and there is a significant difference in this case*, between the facts which control the patent infringement claim and the facts which control the antitrust claim. [Pet. App. 36a-37a (emphasis added).]

While expressing doubt as to the validity of the procedure it attributes to the Federal Circuit, Opp. 16, respondent suggests that this principle does not apply here because Hydranautics did not separately appeal in the initial patent infringement action the particular findings on which respondent now speculates the Federal Circuit relied below. *See id.* at 15. But there is no requirement that litigants appeal the findings underlying adverse rulings of law. Instead, adverse rulings—not the findings underlying those rulings—are appealed. *Cf. Fireman's Fund Ins. Co.* v. *International Mkt. Place*, 773 F.2d 1068, 1069 (9th Cir. 1985). And, as noted, under settled law, when rulings are reversed or vacated, the findings underlying those rulings fall with them.

And—while it was fully aware of the Federal Circuit decision rejecting Hydranautics' antitrust claim and properly read that decision as holding "as a matter of law * * * [that] FilmTec's case was not objectively baseless," *id.* at 39a-40a n.1—the Ninth Circuit concluded that Hydranautics' claim was not subject to dismissal on the ground that the same allegations of fraud necessarily rendered the infringement action "objectively baseless" as a matter of law. *Id.* at 40a.

Despite the fact that the Ninth Circuit appeal arose from the same case—and, indeed, the same district court decision—as the Federal Circuit appeal, respondent argues that the decisions involved "different facts." Opp. 16. But of course they did not. The district court's decision reached the Federal and Ninth Circuits with the *same* procedural history and ultimately presented the *same* question to each circuit—*viz.*, whether Hydranautics' *Walker Process* antitrust claim was subject to dismissal because of *Noerr*. The difference is in the *legal* analysis applied by each circuit: the Federal Circuit excluded Hydranautics' allegations of fraud in determining that respondent's patent infringement suit was immunized by *Noerr*, whereas the Ninth Circuit concluded it was necessary to determine *Noerr*'s reach in light of the alleged fraud. Each analysis produced an entirely different result when applied to the identical antitrust claim.[7]

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[7] In a last-ditch effort to obscure the obvious conflict presented by this case, respondent suggests that there "*cannot* be a * * * conflict between the Federal Circuit and the Ninth Circuit on a matter of antitrust law." Opp. 20 n.8. Nothing in the Federal Circuit decision below, however, indicates that it felt bound by the Ninth Circuit rule on the application of *Noerr* to *Walker Process* claims; if it had, the Federal Circuit certainly would have followed *Liberty Lake*, as the Ninth Circuit did in its decision in this case. Pet. App. 9a-14a. Before the Ninth Circuit, moreover, respondent took exactly the opposite position on which way the deference should flow, arguing that the Ninth Circuit was "invad[ing] the exclusive jurisdiction of the Federal Circuit," and that it should defer to the Federal Circuit because of that Circuit's special expertise in patent issues. FilmTec Pet. for Reh. (9th Cir.) 1, 7, 9,

5. Contrary to the suggestion of respondent, nothing in *Pro-Mold & Tool Co.* v. *Great Lakes Plastics, Inc.*, 75 F.3d 1568 (Fed. Cir. 1996), blurs the direct conflict between the Federal and Ninth Circuits on the important question reserved in *PREI*. In *Pro-Mold* the Federal Circuit merely noted in passing that *Walker Process* established a "remedy for inequitable conduct" in the procurement of a patent. *Id.* at 1575. The Federal Circuit was not required in *Pro-Mold*, as it was in this case, to decide the relationship between the *Walker Process* and *Noerr-Pennington* doctrines, since no *Walker Process* claim or *Noerr-Pennington* defense was raised in *Pro-Mold*. Accordingly, the pertinent passage of the *Pro-Mold* decision contains no reference to—let alone application of—*PREI*'s sham litigation test. *Pro-Mold*, therefore, in no way alters the Federal Circuit position on the question that is presented by this case and has long divided the lower courts.[8]

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11. The fact that this case reaches the Court from the Federal Circuit makes it an ideal vehicle to resolve the question left open by *PREI*, given that the Federal Circuit is a primary forum for *Walker Process* claims. *See* Pet. 19-20; Pet. App. 35a-36a.

[8] Ironically, while respondent would have this Court believe that *Pro-Mold* bears on the circuit conflict presented by this petition, it would have this Court ignore the D.C. Circuit decision in *Whelan* v. *Abell*, *supra*—which discussed the relationship between the *Walker Process* and *Noerr-Pennington* doctrines, 48 F.3d at 1255, quoted with approval from the Ninth Circuit decision in *Liberty Lake*, *id.*, and has been read by other courts as aligning the D.C. Circuit with the Ninth Circuit on the question left open by *PREI* and presented here, *see, e.g.*, *Nobelpharma AB* v. *Implant Innovations, Inc.*, 1996 WL 341966, at *9-*10. Opp. 17 n.6. In light of *Whelan*—as well as the Federal Circuit decision below—respondent is quite incorrect to state that "[t]he Ninth Circuit so far is the *only* court of appeals to explore the relationship between *Walker Process* and [*PREI*]." *Id.* As explained in the petition, the Federal, Ninth, and D.C. Circuits—as well as numerous district courts—have all addressed the issue left open by *PREI*. Pet. 15-19. Many of those courts—as well as numerous commentators

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The circuits are split on the important and recurring question reserved by this Court in *PREI*. That question is starkly presented by the conflicting decisions in this case. The Court should grant the petition and resolve the conflict.

CONCLUSION

For the foregoing reasons, as well as for those set forth in the petition, the Court should grant the writ and reverse the decision below.

Respectfully submitted,

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—have explicitly recognized the need for guidance from this Court. *Id.* And, as respondent does not dispute, the circuits were divided in their application of *Noerr* to *Walker Process* claims long before this Court's decision in *PREI*. *Id.* at 14-15. *PREI* has simply intensified the conflict and heightened the need for intervention by this Court. *Id.* at 15-20.